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SHAPIRO LAW FIRM, P.C. July FEB 27 P 1: 39
Jay L. Shapiro (No. 014650) 2015 FEB 27 P 1: 39
1819 E. Morten Avenue, Suite 280
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Attorneys for Verde Santa Fe Wastewater Co., Inc.

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF VERDE SANTA FE WASTEWATER CO., INC., AN ARIZONA CORPORATION, FOR AUTHORITY TO: (1) ISSUE LONGTERM DEBT INSTRUMENTS IN AN AMOUNT NOT TO EXCEED \$137,500 IN CONNECTION WITH FINANCING THE ACQUISITION OF WASTEWATER UTILITY PLANT OF PIVOTAL UTILITY MANAGEMENT, L.L.C.; AND (2) ENCUMBER REAL PROPERTY AND UTILITY PLANT AS SECURITY FOR SUCH INDEBTEDNESS.

DOCKET NO: SW-03437A-14-0377

VERDE SANTA FE WASTEWATER'S FILING IN RESPONSE TO PROCEDURAL ORDER

Verde Santa Fe Wastewater Co., Inc., (the "Company") hereby makes this filing as directed in the Procedural Order dated February 6, 2015. In sum, the Company followed the methodology employed by Staff in the underlying rate case, which methodology matches the length of the loan to the remaining useful life of the assets. In hindsight, the Company now realizes further explanation was needed in its filing to explain the apparent disconnect. The Company apologizes for any confusion it has caused and, in the end, will modify the loan terms if that is what the Commission directs. However, the Company believes, as Staff recognized in making the recommendation which the Commission ultimately adopted, that the terms of a loan should not exceed the useful life of the assets.

Arizona Corporation Commission DOCKETED

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RESPONSE

This Financing Application was ordered by the Commission in Decision 74608 (July 30, 2014) (the "Decision"). The Commission's order adopted a recommendation by Staff in order to address concerns over ownership of assets used by the Company to provide service. More specifically, Staff recommended that the Company be directed to file a Financing Application seeking approval to finance the purchase of the subject assets from the owner/lessor. Staff recommended the purchase price be set at book value (original cost less depreciation), with an interest rate of five 5 percent (5%) for a term of 14 years, which term was to match the remaining useful life of the assets being acquired. And therein lies the Company's oversight.

In preparing this Application, the Company determined that the assets had been in service for 9 years, resulting in a book value of \$137,500 and a remaining useful life of 11 years. Following Staff's reasoning – that the loan should not be for a term that exceeds the useful life of the subject assets,³ the Company used an 11 year loan term. Thus, the Company believed in good faith it was complying with the spirit and intent of the recommendation by Staff that was adopted by the Commission. The Company presumes this is also why Staff expressed no concern over the loan amount or the loan term in its Staff Report in this docket wherein Staff recommends approval.

Ultimately, how to proceed is up to this Commission. Given its broad powers to interpret its own orders, the Company suggests that the Commission could conclude that the intent of its order adopting Staff's recommendation to require a financing application was to require that the financing be for a term that matched the remaining useful life of

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¹ Decision at 8-9 discussing Staff Recommendation.

 ² Id.
 ³ See Direct Testimony of Crystal S. Brown (filed February 24, 2014 in Docket No. SW-03437A-13-0292) ("Brown DT") at 11-12.

the assets.⁴ An order in this docket can provide an explanation of the Commission's reasoning. If the Commission disagrees, however, the Company believes the Commission could readily reopen the Decision pursuant to A.R.S. § 40-252 and amend it to reflect that the 14 year terms stated in that order was an estimate of the then remaining useful life and that the loan term should not exceed the remaining useful life of the assets subject to the loan. Finally, in the alternative, the Company is willing to modify its financing request to use a 14-year term.⁵ However, using a 14-year term will mean that Company will likely be paying for an asset beyond its useful life. RESPECTFULLY SUBMITTED this 27th day of February, 2015. SHAPROLAW FIRM, P.C. By Jay L. Attorneys for

Verde Santa Fe Wastewater Co., Inc.

ORIGINAL and thirteen (13) copies 15 of the foregoing were filed 16

this 27th day of February, 2015, with:

17 **Docket Control**

Arizona Corporation Commission

1200 W. Washington Street 18 Phoenix, AZ 85007

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COPY of the foregoing was hand-delivered this 27th day of February, 2015, to: 20

Sarah Harpring, ALJ 21 Hearing Division

Arizona Corporation Commission 22

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23 Phoenix, AZ 85007

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⁴ See Brown DT at 11-12; Decision at 8-9 discussing Staff Recommendation.

⁵ The Company is prepared to submit a Corporate Resolution authorizing a loan term of up to 14 years if necessary.

Robin Mitchell
Legal Division
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

By: White Park

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